

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

SUPPLEMENTAL COMPLIANCE REPORT

OF

LAKE CENTRAL SCHOOL CORPORATION

LAKE COUNTY, INDIANA

July 1, 2012 to June 30, 2014



**FILED**

09/24/2015



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Transmittal Letter .....	3
Federal Findings:	
Finding 2014-001 - Financial Transactions and Reporting .....	4-5
Finding 2014-002 - Allowable Costs and Costs Principles.....	5-6
Finding 2014-003 - Procurement.....	6-7
Finding 2014-004 - Eligibility and Special Tests - Verifications.....	8-9
Corrective Action Plan.....	10-13
Audit Results and Comments:	
Payroll Compliance.....	14
Prepaid School Lunch Accounts.....	14
Textbook Rental and Educational Fees .....	15
Credit Card Policy.....	15-16
Fund Sources and Uses .....	16-17
Official Response .....	18-19
Exit Conference .....	20

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Lorri Miskus Cathie Romba	07-01-12 to 02-19-13 02-20-13 to 12-31-15
Director of Business Services	Robert James	07-01-12 to 06-30-16
Superintendent of Schools	Dr. Lawrence Veracco	07-01-12 to 06-30-20
President of the School Board	Howard Marshall, Jr. George Baranowski Don Bacso	01-01-12 to 12-31-12 01-01-13 to 12-31-14 01-01-15 to 12-31-15



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE LAKE CENTRAL SCHOOL CORPORATION, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Lake Central School Corporation (School Corporation), for the period from July 1, 2012 to June 30, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the School Corporation. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the School Corporation, which provides our opinions on the School Corporation's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

July 22, 2015

LAKE CENTRAL SCHOOL CORPORATION  
FEDERAL FINDINGS

***FINDING 2014-001 - FINANCIAL TRANSACTIONS AND REPORTING***

The School Corporation has deficiencies in the internal control system related to financial transactions and reporting. Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the School Corporation's audited financial statement and then determining how those identified risks should be managed. The School Corporation has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements.

Control activities should be selected and developed at various levels to reduce risks of error and/or fraud of the financial statements. The School Corporation has not separated incompatible activities related to all areas of the financial statement. The failure to establish these controls could enable material misstatements to remain undetected.

1. **Lack of Segregation of Duties:** The School Corporation has not separated incompatible activities related to Reporting, Receipts, and Vendor Disbursements.

*Reporting:* One individual is responsible for preparing the Form 9 financial report required to be submitted to the Indiana Department of Education every six months. These reports are the basis for the financial statement. This same individual is extensively involved with the receipt and disbursement process. Although a required certification for this report is signed by management, documentation was not available to support that the report had been compared to supporting documentation or subjected to review before submission.

*Receipts:* One individual is primarily responsible for issuing and recording receipts, preparing the deposits, and taking the deposit to the bank without a proper system of oversight or review in place.

*Disbursements:* Two individuals are involved in the vendor disbursements process. One individual processes the vendor disbursements that are supported with a purchase order and the other individual processes the vendor disbursements that the School Corporation has determined do not require the use of a purchase order. A separate review or oversight process to prevent or detect errors has not been established.

The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

2. **Monitoring of Controls:** An evaluation of the School Corporation's system of internal control has not been conducted. The failure to monitor the internal control system places the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the School Corporation to monitor and assess the quality of the system of internal control.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

LAKE CENTRAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

**FINDING 2014-002 - ALLOWABLE COSTS AND COSTS PRINCIPLES**

Federal Agency: U.S. Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program,  
Special Milk Program for Children  
CFDA Numbers: 10.553, 10.555, 10.556  
Federal Award Years: FY12-13, FY13-14  
Pass-Through Entity: Indiana Department of Education

The School Corporation operates a Food Service Program, which is the recipient of federal funding from the School Breakfast Program, National School Lunch Program, and Special Milk Program for Children. All transactions related to the Food Service Program are recorded in the School Lunch fund. This includes, but is not limited to, salaries and benefits, food purchases, supplies and all revenue generated by the Food Service Program.

Management of the School Corporation has not established an effective internal control system, to ensure that only allowable and adequately documented costs are paid with the Food Service Program funds.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis.

The School Lunch fund is used for the payment of wages of food service employees. Funds related to food service were also used to pay a percentage of several school corporation administrative support staff member's salaries for fiscal years 2012-2013 and 2013-2014. The administrative support staff members (treasurer, accounts payable and clerks, benefits administrator) did not maintain personnel activity reports to support the distribution of a portion of their salaries to the School Lunch fund. The amount of the administrative support salaries charged to the federal grant was \$37,796 and is considered a questioned cost.

OMB Circular A-87, Attachment B, Section 8, Compensation for personal services, states in part:

"h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. . . .

- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
  - (a) More than one Federal award,
  - (b) A Federal award and a non Federal award,
  - (c) An indirect cost activity and a direct cost activity,

LAKE CENTRAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity . . ."

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls enabled material noncompliance to go undetected. The failure to comply with compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Allowable Costs and Cost Principles requirements of the programs.

***FINDING 2014-003 - PROCUREMENT***

Federal Agency: U.S. Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,  
Special Milk Program for Children

CFDA Numbers: 10.553, 10.555, 10.556

Federal Award Years: FY12-13, FY13-14

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the Procurement compliance requirements.

For the 2012-2013 fiscal year, the School Corporation utilized a third party for food service bids. The third party administered the bidding process as well as verified that the vendors were not suspended or debarred. The third party made a recommendation to the School Corporation for the winning bids. However, the School Corporation and Board of School Trustees never formally approved or awarded the bids.

For the 2013-2014 fiscal year, the Food Service Director and Director of Business Services contracted with a third party purchasing service for food products, materials, supplies, and milk bids. The School Corporation and Board of School Trustees did not approve the contract with the purchasing service.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.



LAKE CENTRAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

The School Corporation Bylaws and Policies, Policy 6320 - PURCHASING states:

"It is the policy of the School Board that the Director of Business Services/Treasurer shall act as the purchasing agent for the Board. Contracts can be awarded by the Director of Business Services/Treasurer without Board approval for any single item or group of identical items costing less than \$150,000. All other contracts require Board approval prior to purchase."

The U.S. Department of Agriculture procurement regulations required the School Corporation to follow State and local procurement laws and standards. The School Corporation did not follow its' own policies and procedures for procurement by not having the Board of School Trustees approve the contract with the third party purchaser.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

7 CFR 3016.36 states in part:

"(a) *States.* When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. Other grantees and subgrantees will follow paragraphs (b) through (i) in this section.

(b) *Procurement standards.*

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . ."

Indiana Code 5-22-6-1 states: "The purchasing agency of a governmental body may purchase services using any procedure the governmental body or the purchasing agency of the governmental body considers appropriate."

Indiana Code 5-22-6-2 states:

"(a) A governmental body may adopt rules governing the purchase of services for the governmental body.

(b) The purchasing agency of a governmental body may establish policies regarding the purchase of services for the governmental body."

The failure to establish internal controls enabled material noncompliance to go undetected. The failure to comply with compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Procurement requirements of the programs.

LAKE CENTRAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

***FINDING 2014-004 - ELIGIBILITY AND SPECIAL TESTS - VERIFICATIONS***

Federal Agency: U.S. Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program,  
Special Milk Program for Children  
CFDA Numbers: 10.553, 10.555, 10.556  
Federal Award Years: FY12-13, FY13-14  
Pass-Through Entity: Indiana Department of Education

Management of the School has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Eligibility and Special Tests - Verification of Free and Reduced Lunch Applications compliance requirements.

*Eligibility*

The School Corporation has not designed or implemented adequate policies or procedures to ensure that students' eligibility for free and reduced price lunches is properly determined in compliance with program requirements. One person is solely responsible for inputting applications into the computer software system which determines eligibility. In addition, the applicable federal income eligibility guidelines are uploaded every year by one individual; however, there is no documentation that the eligibility guidelines entered are verified as accurate prior to the software making eligibility determinations for all applicants. An oversight or review process has not been established to ensure accurate eligibility determinations.

*Verification of Free and Reduced Price Lunch Applications*

Each School Corporation that participates in the National School Lunch Program must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals. The School Corporation performed the verifications; however, there was no documentation that an oversight or review process had been established to ensure the accuracy of the verifications performed.

The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

LAKE CENTRAL SCHOOL CORPORATION  
FEDERAL FINDINGS  
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

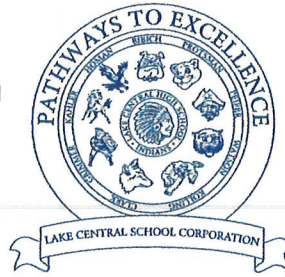
We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

# Lake Central School Corporation

8260 Wicker Avenue  
Tel: (219) 365-8507

St. John, IN 46373  
Fax: (219) 365-6406

website: [lcsc.us](http://lcsc.us)



Lawrence Veracco, Ph.D.  
Superintendent

Rob James  
Director of Business  
Services

## CORRECTIVE ACTION PLAN

### ***FINDING 2014-1***

Contact Person Responsible for Corrective Action: Rob James  
Contact Phone Number: (219) 365-8507

#### Lack of Segregation of Duties

*Reporting* – Currently, the Corporation Treasurer prepares the Form 9 report and it is independently reviewed by the Director of Business Services. After his review, the Direction of Business Services submits the Form 9 report to the Department of Education. Even though a thorough review is conducted, the district has not adequately tick marked and documented this review. Beginning with the Form 9's submitted in July 2015, the Director of Business Services will make his own notations on the Form 9 report documenting his review, rather than just confirming what was already done by the Corporation Treasurer.

*Receipts* – The majority of money receipted through Central Office is received via ACH or bank wires. Currently, the Director of Business Services verifies that all of these transactions are receipted correctly. Most of the cash and checks remitted to the Corporation Treasurer (i.e. insurance checks, facility rental, food service, etc) are initially collected and counted by other individuals in the corporation. After the money is remitted to the Corporation Treasurer, a receipt is sent back to the person who collected the payments for them to compare to the amount remitted. During the fall of the 2015-2016 school year, a system of additional oversight will be developed by the administrative team to have the Director of Business Services review the receipts and deposits.

*Disbursements* – Similar to Receipts, during the fall of the 2015-2016 school year, the administrative team will develop procedures to have the Director of Business Services review disbursements. This will probably include the Director of Business Services sampling disbursements that appear on the claim docket and verifying the payee, dollar amount, account code, etc agree to the original invoice and have been properly approved for payment.

#### Monitoring of Controls

Once the aforementioned internal controls are implemented in the fall of the 2015-2016 school year, the next step will be for the district to review the effectiveness of these controls. This will involve a separate administrator who is not involved in the Business Department control structure.

  
\_\_\_\_\_  
(Signature)

*Director of Business Services*  
\_\_\_\_\_  
(Title)

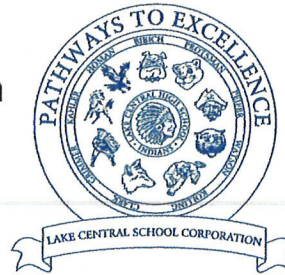
*7-21-15*  
\_\_\_\_\_  
(Date)

# Lake Central School Corporation

8260 Wicker Avenue  
Tel: (219) 365-8507

St. John, IN 46373  
Fax: (219) 365-6406

website: [lcsc.us](http://lcsc.us)



Lawrence Veracco, Ph.D.  
Superintendent

Rob James  
Director of Business  
Services

## CORRECTIVE ACTION PLAN

### ***FINDING 2014-2***

Contact Person Responsible for Corrective Action: Rob James  
Contact Phone Number: (219) 365-8507

Instead of applying a general indirect cost rate to the Food Service Program for administrative costs, the policy of the Lake Central School Corporation has been to charge identifiable costs directly to the program. We have felt this is cleaner and more transparent to our School Board and taxpayers. These costs include, for example, utility bills for which the cafeteria has its own electrical or water meter. Additionally, we were charging 10% of the salaries of the treasurer, payroll, and accounts payable clerks to the program. This was based on an estimate that approximately 10% of our employees work in food service and therefore, 10% of the job duties of these administrative personnel would be related to food service. We acknowledge that this calculation was not based on actual expenditures, but rather our best estimate.

Beginning with the 2015-2016 school year, we intend to no longer allocate a portion of these administrative salaries directly to the Food Service Program. Rather, at the end of the school year, we will apply the applicable indirect cost rate to recover administrative costs.

(Signature)

Director of Business Services  
(Title)

7-21-15

(Date)

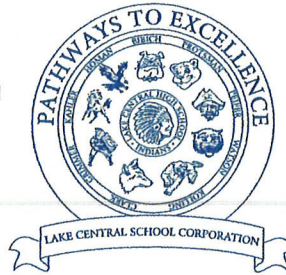


# Lake Central School Corporation

8260 Wicker Avenue  
Tel: (219) 365-8507

St. John, IN 46373  
Fax: (219) 365-6406

website: [lcsc.us](http://lcsc.us)



Lawrence Veracco, Ph.D.  
Superintendent


Rob James  
Director of Business  
Services

## CORRECTIVE ACTION PLAN

### **FINDING 2014-3**

Contact Person Responsible for Corrective Action: Rob James  
Contact Phone Number: (219) 365-8507

The Lake Central School Corporation acknowledges that the School Board did not formally approve the bids that were obtained by the third party for our Food Service Program's food products, materials, supplies, and milk bids during the audit period. On June 1, 2015, the School Board approved HPS, LLC to act as our third party for the bidding of our food service products for the 2015-2016 school year. Once the bids are received by HPS, we will bring their recommendations in front of the Lake Central School Board to be formally awarded.

  
\_\_\_\_\_  
(Signature)  
**Director of Business Services**  
\_\_\_\_\_  
(Title)  
**7-21-15**  
\_\_\_\_\_  
(Date)

# Lake Central School Corporation

8260 Wicker Avenue  
Tel: (219) 365-8507

St. John, IN 46373  
Fax: (219) 365-6406

website: [lcsc.us](http://lcsc.us)



Lawrence Veracco, Ph.D.  
Superintendent

Rob James  
Director of Business  
Services

## CORRECTIVE ACTION PLAN

### **FINDING 2014-4**

Contact Person Responsible for Corrective Action: Rob James  
Contact Phone Number: (219) 365-8507

*Eligibility* – The Lake Central School Corporation annually uploads the income eligibility guidelines into our food service computer software. The program then determines the applicant's eligibility. Beginning with the 2015-2016 school year, a separate individual will go into the system to verify the guideline amounts were accurately uploaded. This second individual will also randomly test some of the computer generated determinations to verify that the software is making the proper eligibility conclusions.

*Verification of Free and Reduced Price Lunch Applications* – As stated in the finding, the School Corporation did perform the required application verifications. However, in some instances, a second individual did not review and confirm the verification initially performed. Beginning with the 2015-2016 school year, we will not only continue to perform the required verifications, but we will also make sure that a second individual confirms the verifications initially completed.

  
\_\_\_\_\_  
(Signature)  
*Director of Business Services*  
\_\_\_\_\_  
(Title)  
*7-21-15*  
\_\_\_\_\_  
(Date)

LAKE CENTRAL SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

**PAYROLL COMPLIANCE**

Salaries paid to the Director of Business Services, the Treasurer, and other support staff working out of the administrative building were paid from several different funds, including Textbook Rental and Transportation. The amount of salary charged to each fund was assessed using ten percent increments without supporting documentation.

Indiana Code 5-11-9-4 requires that records be maintained showing which hours are worked each day for employees employed by more than one political subdivision or in more than one position by the same public agency. This requirement can be met by indicating the number of hours worked on each Employee's Service Record, General Form No. 99 A and/or General Form No. 99B. hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. (Accounting and Uniform Compliance Guidelines Manual for Indiana School Corporations, Chapter 13)

The Textbook Rental Fund, designated Fund Number 0900 in the prescribed accounting system when established in the school corporation account, is to be used to record all receipts of fees collected for rent of textbooks and workbooks furnished to students; also, to record all disbursements for purchase of textbooks, for repair of textbooks and for workbooks to be used with rented textbooks furnished to students for a designated fee. (Accounting and Uniform Compliance Guidelines Manual for Indiana School Corporations, Chapter 3)

The Conclusion of Attorney General Advisory Number 96-78 states in part:

"The school transportation fund was established to cover costs which are attributable to transportation. Indiana Code 21-2-11.5-2(b)(1) through (b)(7) (now 20-40-6-6) set forth the costs which may be attributed to transportation. According to subsection (b)(1), the salaries of "transportation-related" employees may be paid from this fund. As the school superintendent and school corporation treasurer do not appear to be positions that are transportation-related, payment from the transportation fund of the salaries attached to these positions would be improper." (Accounting and Uniform Compliance Guidelines Manual for Indiana School Corporations, Chapter 8)

**PREPAID SCHOOL LUNCH ACCOUNTS**

The School Corporation accounts for the prepaid food activity within the School Lunch fund. A separate clearing account for the prepaid food account activity has not been established as prescribed.

Clearing Account Number 8400 - Prepaid Food has been established to account for prepaid food. The collections are to be receipted to 8410 with 8420 representing the transfers out of the clearing account and recognition in the appropriate revenue classifications (1611 to 1614 series) in the School Lunch Fund. The transfer should be made periodically and at the end of each month to appropriately classify meals (breakfast, lunch, etc.) when known (charged by student). Subsidiary records by student should be routinely reconciled to the cash balance and at month end. (The School Administrator and Uniform Compliance Guidelines, Volume 183, September 2008)



LAKE CENTRAL SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

**TEXTBOOK RENTAL AND EDUCATIONAL FEES**

Records presented for audit of the textbook rental (TBR) charges were incomplete and not reflective of actual costs incurred for grades 5-8. The records presented for middle school TBR did not provide sufficient supporting documentation; the retail price of curricular materials for grades 5-8 was not provided. It could not be verified that the calculation of curricular materials rental complies with Indiana Code 20-26-12-2.

The School Corporation collected educational fees as part of the students' textbook rental fees and remitted these educational fees to the School Corporation Treasurer for posting to the General fund. Written guidance from the School Corporation's attorney was not provided that determined whether or not the fees violate the Indiana Constitution.

Indiana Code 20-26-12-2 states in part:

"(a) A governing body may purchase from a publisher any curricular material selected by the proper local officials. The governing body may rent the curricular materials to students enrolled in any public or nonpublic school that is:

- (1) in compliance with the minimum certification standards of the state board; and
- (2) located within the attendance unit served by the governing body.

The annual rental rate may not exceed twenty-five percent (25%) of the retail price of the curricular materials.

(b) Notwithstanding subsection (a), the governing body may not assess a rental fee of more than fifteen percent (15%) of the retail price of curricular materials that have been:

- (1) extended for usage by students under section 24(e) of this chapter; and
- (2) paid for through rental fees previously collected."

Indiana Code 20-26-4-1(d) concerning duties of the School Corporation Treasurer, states in part:

"The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

**CREDIT CARD POLICY**

The School Corporation's administrative "Use of Credit Cards" policy number 6423 states in part:

"The Superintendent shall develop administrative guidelines that specify those authorized to use credit cards, the types of expense which can be paid by credit card, and their proper supervision and use."

LAKE CENTRAL SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

Administrative guidelines developed by the Superintendent were not provided.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

**FUND SOURCES AND USES**

The School Corporation disbursed amounts from the Capital Projects fund for snow plowing, landscaping and other maintenance of grounds activities from account 26300 (Maintenance of Grounds). They also disbursed amounts for the disposal of records from account 25110 (Office of the Business Manager). The chart of accounts from the Accounting and Uniform Compliance Guidelines Manual for Indiana School Corporations does not authorize disbursements from the Capital Projects fund from these accounts.

LAKE CENTRAL SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

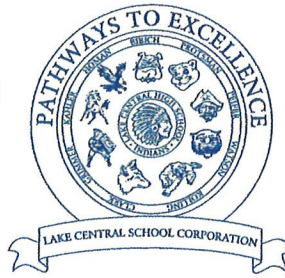
Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana School Corporations, Chapter 9)

# Lake Central School Corporation

8260 Wicker Avenue  
Tel: (219) 365-8507

St. John, IN 46373  
Fax: (219) 365-6406

website: [lcsc.us](http://lcsc.us)



Lawrence Veracco, Ph.D.  
Superintendent

Rob James  
Director of Business  
Services

## OFFICIAL RESPONSE

August 4, 2015

Mr. Paul Joyce  
State Examiner  
Indiana State Board of Accounts  
302 West Washington Street, Room E418  
Indianapolis, IN 46204-2765

Dear Mr. Joyce:

This is the official response to the Indiana State Board of Accounts audit report of the Lake Central School Corporation for the period July 1, 2012 to June 30, 2014.

### Payroll Compliance

The Lake Central School Corporation acknowledges that a portion of the salaries of some central office personnel were charged to funds such as textbook rental and transportation. The school corporation will adjust the allocation of these salaries to coincide with actual time spent working in those respective areas.

### Prepaid School Lunch Accounts

The district acknowledges that prepaid food activity is currently accounted for within the School Lunch fund. Per the State Board of Accounts request, we will create a separate fund to account for the prepaid food activity.

### Textbook Rental and Educational Fees

The district was operating without a Director of Secondary Education during a portion of the audit period. Unfortunately, the documentation requested to support the textbook charges during that time could not be located. The school corporation will maintain all supporting documentation related to the actual costs incurred for textbook rental fees.

### Credit Card Policy

The school corporation updated all of its school board policies during the audit period. This was a major undertaking by the administrative staff and the School Board. After the Board adopted the policies, the next step is to write the administrative regulations to implement those policies. Even though the school corporation does have a proper credit card policy, as recommended by the State Board of Accounts, we have not written the corresponding administrative regulations yet. The district hopes to have these completed within the next year.

Fund Sources and Uses

The school corporation acknowledges that it charged expenses to the Maintenance of Grounds and Office of the Business Manager expenditure accounts from the Capital Projects Fund. At that time, we felt those were the most accurate classifications of the expenditures. Unfortunately, we did not realize that these account codes were not authorized for the Capital Projects Fund in the chart of accounts. In the future, we will not utilize these account codes for Capital Projects Fund expenditures.



---

Robert K. James, CPA, CBO  
Director of Business Services

LAKE CENTRAL SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on July 22, 2015, with Cathie Romba, Treasurer; Robert James, Director of Business Services; Dr. Lawrence Veracco, Superintendent of Schools; and Don Bacso, President of the School Board.